

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 DODE-00 PA-02 PRS-01

PM-04 /118 W

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R 071340Z OCT 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6342

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR UK

SUBJECT: UK ANNOUNCES NATIONAL AIDS FOR FARMERS IN WAKE
OF REFUSAL TO AGREE TO GREEN POUND DEVALUATION

BEGIN SUMMARY: HMG REFUSAL TO ACCEPT A GREEN POUND
DEVALUATION AT EC COUNCIL OF AGRICULTURE MINISTERS'
MEETING, OCTOBER 5 FOLLOWED BY ANNOUNCEMENT OF NATIONAL
MEASURES TO HELP DROUGHT HIT SECTORS OF AGRICULTURE

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INCLUDING HIGHER MILK PRICE, INCREASE IN FAT SHEEP

GUARANTEE AND HIGHER CAPITAL GRANTS FOR WATER STORAGE ON FARMS. UK REFUSAL TO ASSENT TO GREEN POUND MOVE DERIVES FROM FEARS OF INFLATIONARY IMPACT ON CONSUMER FOOD PRICES. END SUMMARY.

1. UK AGRICULTURE MINISTER JOHN SILKIN'S REFUSAL TO ACCEPT EVEN A 4.5 PERCENT GREEN POUND DEVALUATION AT EC COUNCIL OF AGRICULTURE MINISTERS' MEETING IN LUXEMBOURG ON OCTOBER 5 HAS BEEN GIVEN HEADLINE MEDIA COVERAGE IN BRITAIN. A DEVALUATION OF 4.5 PERCENT WOULD HAVE ADDED 1.5 PERCENT TO THE UK RETAIL FOOD PRICE INDEX WHICH SILKIN SAYS CONFLICTS WITH HMG'S OVER-RIDING CONCERN TO GET INFLATION UNDER CONTROL.

2. SIMULTANEOUSLY, HOWEVER, SILKIN ANNOUNCED SELECTIVE NATIONAL AIDS WHICH ARE CLAIMED BY UK TO BE PERMISSIBLE UNDER CAP RULES ON A SELECTIVE BASIS.

3. MAJOR MEASURE IS AID FOR THE MILK SECTOR WHICH IS MOST IMPORTANT SINGLE PART OF BRITISH AGRICULTURE, IS THE SPEARHEAD OF UK PROGRAMME TO EXPAND SELF-SUFFICIENCY, AND WHICH HAS BEEN PARTICULARLY HARD HIT BY DROUGHT. GUARANTEE PRICE OF MILK FOR THE SIX-MONTH "WINTER" PERIOD GOES UP BY 2 PENCE PER GALLON WHICH IS EQUIVALENT TO ONE PENNY PER GALLON OVER THE YEAR AS A WHOLE RAISING THE 1976-77 MILK GUARANTEE PRICE TO 44 PENCE PER GALLON OR 19 PERCENT HIGHER THAN THE 1975-76 GUARANTEE. THE EFFECT OF THIS WOULD BE TO INJECT AN ADDITIONAL 20 MILLION POUNDS INTO MILK PRODUCERS' RETURNS. THE COST WILL BE MET BY RAISING THE RETAIL PRICE OF MILK BY ONE PENNY PER PINT EARLY IN JANUARY 1977 FROM PRESENT 9 1/2 PENCE FOR BASIC PASTEURISED.

4. HIGHER PRICE ALSO AWARDED ON FAT SHEEP WITH GUARANTEE PRICE UP BY 3 PENCE PER LB. IN THE FIRST QUARTER OF 1977 TO 45 PENCE OR 27 PERCENT ABOVE 1975-76 GUARANTEE. THIS MOVE IS TO ENCOURAGE FARMERS TO OVER-WINTER MORE OF THEIR SHEEP THAN THEY MIGHT HAVE DONE BECAUSE OF TIGHT FORAGE SITUATION. MOVE ON SHEEP GUARANTEE WILL PROBABLY BE MORE PSYCHOLOGICAL THAN REAL IN EFFECT SINCE MARKET UNCLASSIFIED

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PRICES ARE IN ANY CASE EXPECTED TO REMAIN WELL ABOVE THE GUARANTEE FOR AT LEAST THE REMAINDER OF 1976-77.

5. THE OTHER MAJOR ADDITIONAL ASSISTANCE IS A 20 PERCENT INCREASE IN CAPITAL GRANTS FOR FARM RESERVOIRS AND OTHER WATER STORAGE WORKS.

6. NFU PRESIDENT HENRY PLUMB REACTED BY SAYING IT WAS

WRONG AND SHORT-SIGHTED TO HAVE REFUSED EVEN THE VERY
MODEST PROPOSALS FOR A LIMITED GREEN POUND DEVALUATION.
MEAFURES TO HELP THE DAIRY INDUSTRY WOULD ONLY PARTLY
HELP FARMERS MEET EXTRA FEED COSTS THIS WINTER. PLUMB
FORECAST ADDITIONAL SALES OF DAIRY COWS BECAUSE OF
LIKELY SHORTAGE OF WINTER FEED AND A RESULTANT CHECK TO
EXPANSION HOPES IN THE DAIRY SECTOR. A WARMER WELCOME
WAS GIVEN TO THE MEASURES ON FAT SHEEP AND CAPITAL GRANTS.
HAVING HAD THEIR HOPES OF A GREEN POUND DEVALUATION
DASHED FOR TIME BEING AT LEAST THE NFU NOW INTENDS TO
SWITCH ITS QUEST FOR ADDITIONAL HELP TO TAXATION RELIEF
UNDER WHICH FARMERS WOULD BE ALLOWED TO OFFSET TAXES ON
THE GAINS FROM ONE YEAR AGAINST THE LOSSES FROM ANOTHER.

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7. REMAINDER OF EC IS NOW FACED WITH SUBSIDISING UK FOOD IMPORTS AT THE RATE OF ABOUT 30 MILLION POUNDS PER MONTH ASSUMING MARKET VALUE OF STERLING DOES NOT FALL EVEN FURTHER. SILKIN ALSO MANAGED TO GET UNFROZEN THE MCA RATE WHICH WAS FIXED LAST WEEK AT 28.7 PERCENT, THE RATE APPLICABLE ON SEPTEMBER 27, ALTHOUGH THE SUBSEQUENT DECLINE IN STERLING WOULD HAVE TAKEN IT TO 31.9 PERCENT. HMG TOOK THE VIEW THAT THE FREEZING OF MCA'S WAS OF DUBIOUS LEGALITY UNDER EC RULES.

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COMMENT: UK INTRANSIGENCE OVER GREEN POUND DEVALUATION WAS TO BE EXPECTED IN THE LIGHT OF RECENT RESUMPTION OF INFLATION TRENDS IN RETAIL FOOD PRICE INDEX BECAUSE OF DROUGHT AND FALL IN STERLING. AUGUST 1976 RETAIL FOOD PRICE INDEX WAS UP FROM JULY BY 3.3 PERCENT TO 158.5 LARGELY BECAUSE OF 9.8 PERCENT RISE IN SEASONAL FOOD COMPONENT. FRAGILITY OF "SOCIAL CONTRACT" DEPENDS HEAVILY ON MINIMISING FOOD PRICE INCREASES.

THE LEADING EDITORIAL IN "THE TIMES" OF OCTOBER 6 USES THE UK REFUSAL OF A GREEN POUND DEVALUATION TO ARGUE FOR A FUNDAMENTAL REVIEW OF THE CAP. IT POINTS OUT THAT ONE OF THE FOUNDATIONS OF THE CAP WAS AN ASSUMPTION THAT THE RELATIVE EXCHANGE RATES OF MEMBER COUNTRIES WOULD REMAIN STABLE SO REQUIRING THE INSTITUTION OF "GREEN RATES" WHEN EXCHANGE RATES LOST THAT STABILITY. THE EDITORIAL SAYS IT IS ILLOGICAL OF THE COMMISSION NOW TO OBJECT SO STRONGLY TO THE CONSEQUENCES OF WHAT IS A DELIBERATE FEATURE OF THE WHOLE POLICY - TO PREVENT WINDFALLS AND LOSSES TO FARMERS ACCORDING TO THE FLUCTUATIONS OF THEIR NATIONAL CURRENCIES. THE PAPER SAYS THE QUESTION OF

RESULT FROM A GREEN POUND DEVALUATION IS A SEPARATE ISSUE. MEANWHILE, HMG CAN HARDLY BE EXPECTED LIGHTLY TO GIVE UP THE UNEXPECTED BENEFITS ACCRUING FROM EC MEMBERSHIP WHEN THE ORIGINAL EXPECTATION HAD BEEN THE INCURRING OF SUBSTANTIAL COSTS. IT CONCLUDES BY NOTING THAT WHILE AT PRESENT BRITISH CONSUMERS ARE RECEIVING A SUBSIDY OUT OF THE SYSTEM, OTHERS ELSEWHERE RECEIVE BENEFITS IN THE FORM OF COMPARABLE PRODUCER SUBSIDIES. THE COSTS OF THESE OPERATIONS AND OTHER FEATURES OF THE CAP ARE LEADING TO INCREASING PRESSURES FOR FUNDAMENTAL REFORM OF THE

CAP. "THESE QUESTIONS OF REFORM MUST PREOCCUPY THE NEW
COMMISSION WHICH TAKES OFFICE UNDER MR. JENKINS THIS
AUTUMN.....THE BRITISH GOVERNMENT HAS A LEGITI-
MATE BARGAINING COUNTER TO USE IN PRESSING FOR THE START
OF SUCH A FUNDAMENTAL REVIEW OF THE CAP" (I.E. THE
ADVANTAGE THE UK IS GETTING FROM THE GREEN POUND).

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